

LEGISLATIVE SALARY COMMISSION 2002

A Report to the Legislature and Governor

**Submitted by the
Department of Accounting and General Services**

March 2003

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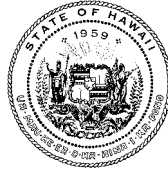
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2002 LEGISLATIVE SALARY COMMISSION
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March 25, 2003

The Honorable Linda Lingle
Governor, State of Hawai'i
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The Honorable Robert Bunda, President
and members of the Senate
State Capitol, Room 003
Honolulu, Hawai'i 96813

The Honorable Calvin K.Y. Say, Speaker
and members of the House of Representatives
State Capitol, Room 431
Honolulu, Hawai'i 96813

Aloha Governor Lingle, President Bunda, Speaker Say,
and members of the Twenty-Second State Legislature:

The 2002 Legislative Salary Commission, hereinafter referred to as the "Commission," has completed its salary recommendations for the 2005 and future members of the Hawai'i State Legislature. The following report is the product of intensive Commission deliberations.

The Commission wishes to thank all the individuals and organizations that provided the Commission with information regarding legislative salaries. The Commission would also like to thank Mr. Russ Saito, State Comptroller – Department of Accounting and General Services (DAGS) for providing the staff support of Kerry Yoneshige, Mr. Mark Bennett, State Attorney General (AG) for providing the staff support of Russell Suzuki, and Ms. Mary Lou Kobayashi, Acting Director – Office of Planning, for providing the staff support of Dick Poirier, Hamid Jahanmir, and Scott Derrickson.

Respectfully submitted,

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Executive Summary

This report supports the 2002 Legislative Salary Commission's recommendation regarding the future salaries for members of the Hawai'i State Legislature. The Commission recommends:

- Increasing legislative salaries by 6.7% in 2005 to \$34,200.
- Adjusting salaries every two years thereafter (2007, 2009, 2011) using an Average Annual Wage index, and
- Increasing the salary differential for the House Speaker and Senate President from \$5,000 to \$7,500.

This Commission has reviewed the work of past commissions and intensively studied various methods and indices that might be utilized to meet their mandate. The Commission concluded that the most appropriate method among the options considered for adjusting legislative salaries would be through the application of an Annual Average Wage index, with adjustments being made every two years. This index provides a gauge to what is going on in our economy and represents fairly, other wage increases within the Hawai'i economy.

In a thoughtful and deliberate way the Commission has determined the following:

- The Hawai'i State legislators deserve a salary increase
- The last adjustments to legislative salaries were made in 1993
- This Commission's recommendation would not take effect until 2005
- In the absence of any recommended salary adjustment this year, Legislative salaries could not be adjusted until 2013, which would represent a 20 year period without a salary increase.

While legislators are considered to be part-time employees, it is apparent that their role requires much more than what a part-time position would do. These factors lead the Commission to conclude that an increase in salary is justified and overdue:

- Since 1993, the minimum wage has been increased by 19.2%
- Since 1993, the Honolulu Consumer Price Index (CPI) has increased by 12.6%
- Since 1993, the Average Wage Index has increased by 17.7%

The Commission has operated under the following points:

1. A system needs to be established to benchmark or index any legislative salary increases.
2. The frequency of adjustments should be appropriate and timely in order to match State budgeting cycles.
3. Any method for adjusting legislative salaries should be fair and easy to implement.

We believe that the overall methodology is sound, fair, and reasonable. By implementing this recommendation, the long lag between salary adjustments could be eliminated. The next Salary Commission will have the opportunity to extend this recommended methodology or to establish a new one.

Overview

The periodic appointment of public individuals to review and make recommendations on legislative salaries is mandated by the Hawai'i State Constitution. The 2002 Legislative Salary Commission is the fourth such commission established pursuant to Article III, Section 9 of the State Constitution, which provides:

“There shall be a commission on legislative salary, which shall be appointed by the governor on or before November 30, 1978, and every eight years thereafter. Not later than the fortieth legislative day of the 1979 regular legislative session and every eight years thereafter, the commission shall submit to the legislature and the governor recommendations for a salary for members of the legislature, and then dissolve. The recommended salary submitted shall become effective as provided in the recommendation unless the legislature disapproves the recommendation by adoption of a concurrent resolution prior to adjournment sine die of the legislative session in which the recommendation is submitted or the governor disapproves the plan by a message of disapproval transmitted to the legislature prior to such adjournment. Any change in salary which becomes effective shall not apply to the legislature to which the recommendation for the change in salary was submitted.”

The 2002 Commission is required to submit its recommendations to adjust the salaries of the State Legislature to both the Legislature and the Governor. These recommendations take effect unless the Legislature or the Governor disapproves the recommendations by the end of the 2003 legislative session. The Commission is dissolved upon submission of its recommendations. The next Commission will be appointed by the Governor on or before November 30, 2010.

Commission's Philosophy

Even in difficult fiscal times, it is the Constitutional mission of the Legislative Salary Commission to objectively review current legislative salaries and to determine what should be considered a fair compensation to carry out legislative duties. In this regard, the 2002 Commission adopted the following philosophy to guide its actions and recommendations:

- *Hawai'i State Legislators deserve an increase in salary, as opposed to maintaining the same level or imposing a decrease.*

Rationale:

Hawai'i's legislators have not received a salary adjustment for 10 years and have earned the same salary since 1993 (\$32,000 for general members; \$37,000 for the Senate President and the Speaker of the House). In 1995, the Legislature did not approve any salary adjustments recommended by the 1994 Legislative Salary Commission. The time frame between the operation of each commission, their recommendations, and any subsequent salary adjustments is twelve years. If the current Commission recommends any salary adjustments, the soonest these adjustments could take effect would be in 2005. Should no salary adjustments be recommended or approved under this Commission, the next opportunity for salary adjustments will not be effective until 2013 or a time lag of 20 years.

- *Though the Hawai'i Legislature is officially considered part-time, the amount of time that is actually required to sufficiently address constituency demands throughout the year could go far beyond the regular definition of part-time work.*

Rationale:

The increasing requirements placed on legislators by constituents and the intensifying complexities of legislative work necessitate that legislators spend extensive amounts of time in legislative matters during the four months when the Legislature is in session and the eight month interim when it is in recess. These demands strain legislators' ability to successfully undertake employment other than that of a legislator. The results of the survey relating to employment of current legislators who served in the 2002 legislature are included in Appendix C.

- *Any salary increase should occur every two years.*

Rationale:

A bi-annual arrangement would coincide with each new legislature and reflect traditional budgeting cycles.

- *Non-salary legislator benefits will be considered in the Commission's deliberations although the Commission does not have the power to affect these benefits.*

Rationale:

The Commission realizes that monetary compensation is one factor that makes up any employee's benefits package. Any salary increase recommended by the Commission should take the following non-salary benefits into account:

- Legislators earn no vacation or sick leave and are not eligible for overtime. They receive the same holidays as other State employees.
 - Medical and other insurance are determined on the same basis as other State employees, as well as personal savings options such as deferred compensation and savings bond deductions.
 - Contributory retirement for legislators is consistent with that of State judges – 3.5 percent.
 - While on official business, all legislators are eligible to receive \$80 per diem for neighbor island travel (this includes neighbor island legislators attending session on O'ahu) and \$130 per diem for mainland travel. This is consistent with other State employees. During the interim, however, all legislators are eligible to receive \$10 per diem for official business conducted on their home island.
 - All legislators are eligible for downtown parking stalls during the session at the standard State rate. Free parking at all State airports is offered.
 - Although all legislators receive a \$5,000 expense account, there are very stringent regulations as to how the money may be spent.
- *The Commission recognizes that the President of the Senate and the Speaker of the House of Representatives have additional duties and responsibilities that warrant a differential in salary from other members of the legislature.*

Rationale:

The Commission realizes that the requirements, both in time and responsibility, of the Senate President and House Speaker are greater than those of other members of the Legislature. Therefore, additional compensation over that of general members of the Legislature is justified.

Methodology and Rationale

The proposed upward adjustment in legislative salary levels is based on changes in the average annual wages for the State of Hawai'i's wage and salary jobs. In 1993, the average annual wage was \$26,544 as compared to the legislative salary level at that time of \$32,000. In 2001, the latest year for which data are available, the average wages had increased by 17.7 percent to \$31,241 (Table 2).

Adjusting the legislative salary levels by average wages was chosen over the Consumer Price Index (CPI). Inasmuch as the CPI would reflect the change in prices of goods on the market, average wages were considered to be a more appropriate index - reflecting both inflation and changes in wages within the labor market.

The recommended increase of 6.7% in the 2005 salary level is based on the average annual growth rate of average wages for the last seven years for which data are available. As such, the 2003 salary level is first estimated by adjusting the current \$32,000 level by the average annual growth rate of average wages from 1992 to 1999. After determining an estimate of a salary level for 2003, the level for 2004 is estimated by adjusting the 2003 level by the average annual growth rate of average wages from 1993 to 2000. Similarly, the 2005 level is adjusted by the growth rate of average wages between 1994 and 2001.

Average changes over seven years were chosen to reduce the impact of the year-to-year fluctuations in average wages. Since average wage data for 2002 are not available until October of 2003, the change was estimated over seven years rather than eight years, which is the time period between the past and current salary commission.

When the average wages for 2005 are available in 2007, the Commission proposes that a new salary level should be determined for 2007 based on the average annual growth rate of average wages between 1998 and 2005, representing the last seven years for which current data are available.

For example the adjustment factor in 2007:

$$= \{[(\text{average wages in 2005}) / (\text{average wages in 1998})]\} ^{(1/7)}.$$

This adjustment factor is multiplied by the 2005 salary level to compute the 2007 level. Accordingly, the salary levels for 2009 and 2011 could be adjusted when the average wage data become available for the previous two years. It should be noted that the Commission proposes a cap of 2.5 percent per year or 5.0 percent for two years on any increase.

The estimated figures in Tables 1 and Table 2 for years 2007, 2009, and 2011 are for illustrative purposes only and do not reflect the Commission's actual proposals for these years. Salaries in those years will need to be calculated using the Average Annual Wage index as provided for in the above example.

The rationale for the increase from \$5,000 to \$7,500 of the extra salary for the Senate President and the House Speaker is generally based on the current difference in salary levels between State agency department directors and their deputies.

Table 1. Recommended Legislative Salary Adjustment for 2005 and Example of Proposed Biennial Adjustments 1/

Year	(1) Legislative Salary	(2) Percent Change in Average Annual Wages	(3) Average Annual Wages	(4) Percent Change (7 Yr. Av.)	(5) Adjusted Legislative Salary by Wages (7 Yr. Av.)	(6) Percent Change in Adjusted Salaries 1/ (Every 2 yrs.)
2005	\$32,000	2.2	\$34,082	2.3	\$34,200	6.7
2006	\$32,000	2.2	\$34,832	2.3	\$35,000	
2007	\$32,000	2.2	\$35,598	2.2	\$35,900	5.0
2008	\$32,000	2.2	\$36,382	2.2	\$36,700	
2009	\$32,000	2.2	\$37,182	2.2	\$37,500	4.6
2010	\$32,000	2.2	\$38,000	2.2	\$38,300	
2011	\$32,000	2.2	\$38,836	2.2	\$39,200	4.4
2012	\$32,000	2.2	\$39,690	2.2	\$40,000	

(1) Current legislative salary since 1993.

(2) Assumed 2.2 percent growth per year for illustrative purposes only.

(3) Estimated based on the assumption in Column 2.

(4) Based on the assumption of 2.2 percent growth rate in Column 2.

(5) Applying the 7 year average growth rates in Column 4 to the previous year's salaries, rounded to the nearest \$100.

(6) The 2005 figure is the initial adjustment. The rest of the years are biennial adjustments, capped at 2.5 percent per year.

1/ Salary levels for 2006 and beyond are purely hypothetical figures based on the assumption that average wages will increase at an annual rate of 2.2 percent per year throughout 2012.
Source: Table 2. 2002 Legislative Salary Commission Worksheet.

Table 2. 2002 LEGISLATIVE SALARY COMMISSION WORKSHEET

Year	(1) Honolulu CPI	(2) Percent Change in CPI	(3) Percent Change CPI (8 years)	(4) Average Annual Wages	(5) Percent Change in Wages	(6) Percent Change in Wages (7 years)	(7) Legislative Salary	(8) Adjusted Legislative Salary by CPI	(9) Adjusted Legislative Salary by CPI (8 years)	(10) Adjusted Legislative Salary by Wages	(11) Adjusted Legislative Salary by Wages (7 years)
1990	138.1	-	(NA)	\$23,109	-	(NA)	\$27,000	-	(NA)	-	(NA)
1991	148.0	7.2	(NA)	\$24,051	4.1	(NA)	\$27,000	\$28,936	(NA)	\$28,101	(NA)
1992	155.1	4.8	(NA)	\$25,532	6.2	(NA)	\$27,000	\$30,324	(NA)	\$29,831	(NA)
1993	160.1	3.2	(NA)	\$26,544	4.0	(NA)	\$32,000	\$31,301	(NA)	\$31,013	(NA)
1994	164.5	2.7	(NA)	\$26,718	0.7	(NA)	\$32,000	\$32,161	(NA)	\$31,217	(NA)
1995	168.1	2.2	(NA)	\$26,983	1.0	(NA)	\$32,000	\$32,865	(NA)	\$31,526	(NA)
1996	170.7	1.5	(NA)	\$27,359	1.4	(NA)	\$32,000	\$33,374	(NA)	\$31,966	(NA)
1997	171.9	0.7	(NA)	\$28,356	3.6	3.0	\$32,000	\$33,608	(NA)	\$33,130	(NA)
1998	171.5	-0.2	(NA)	\$29,029	2.4	2.7	\$32,000	\$33,530	(NA)	\$33,917	(NA)
1999	173.3	1.0	(NA)	\$29,788	2.6	2.2	\$32,000	\$33,882	(NA)	\$34,804	(NA)
2000	176.3	1.7	(NA)	\$30,628	2.8	2.1	\$32,000	\$34,469	(NA)	\$35,785	(NA)
2001	178.4	1.2	1.4	\$31,241	2.0	2.3	\$32,000	\$34,879	(NA)	\$36,501	(NA)
2002	180.3	1.1	1.2	\$31,928	2.2	2.4	\$32,000	\$35,251	(NA)	\$37,304	(NA)
2003	183.9	2.0	1.1	\$32,631	2.2	2.5	\$32,000	\$35,956	\$32,436	\$38,125	\$32,713
2004	187.6	2.0	1.2	\$33,349	2.2	2.3	\$32,000	\$36,675	\$32,810	\$38,964	\$33,388
2005	191.3	2.0	1.3	\$34,082	2.2	2.3	\$32,000	\$37,408	\$33,180	\$39,821	\$34,143
2006	195.2	2.0	1.6	\$34,832	2.2	2.5	\$32,000	\$38,156	\$33,574	\$40,697	\$35,013
2007	199.1	2.0	1.7	\$35,598	2.2	2.5	\$32,000	\$38,919	\$34,027	\$41,592	\$35,834
2008	203.0	2.0	1.8	\$36,382	2.2	2.5	\$32,000	\$39,698	\$34,581	\$42,507	\$36,665
2009	207.1	2.0	1.9	\$37,182	2.2	2.5	\$32,000	\$40,492	\$35,185	\$43,442	\$37,581
2010	211.3	2.0	2.0	\$38,000	2.2	2.5	\$32,000	\$41,302	\$35,812	\$44,398	\$38,521
2011	215.5	2.0	2.0	\$38,836	2.2	2.5	\$32,000	\$42,128	\$36,486	\$45,375	\$39,484
2012	219.8	2.0	2.0	\$39,690	2.2	2.5	\$32,000	\$42,970	\$37,216	\$46,373	\$40,471

(1) Honolulu Consumer Price Index (CPI), 1982-1984=100, DBEDT, QSER, March, 2003.

(2) Annual percent change in CPI. Figures from 2003 to 2012 are guess estimates and only for illustration purposes.

(3) Average annual percent change in CPI computed as prior 8 years average. Like column (2), it is assumed that CPI will increase by 2.0 percent per year after 2002.

(4) Average annual wages, DLIR, Labor and Occupational Information Hawaii (LO'HI).

(5) Annual percent change in average wages. Figures from 2002 to 2012 are guess estimates and only for illustration purposes.

(6) Average annual percent change in wages computed as prior 7 years average. Like column (5), it is assumed that average ages will increase by 2.2 percent per year after 2001.

(7) Legislative salary.

(8) Adjusted legislative salary using annual change in CPI. [column (7) x column (2) / 100]

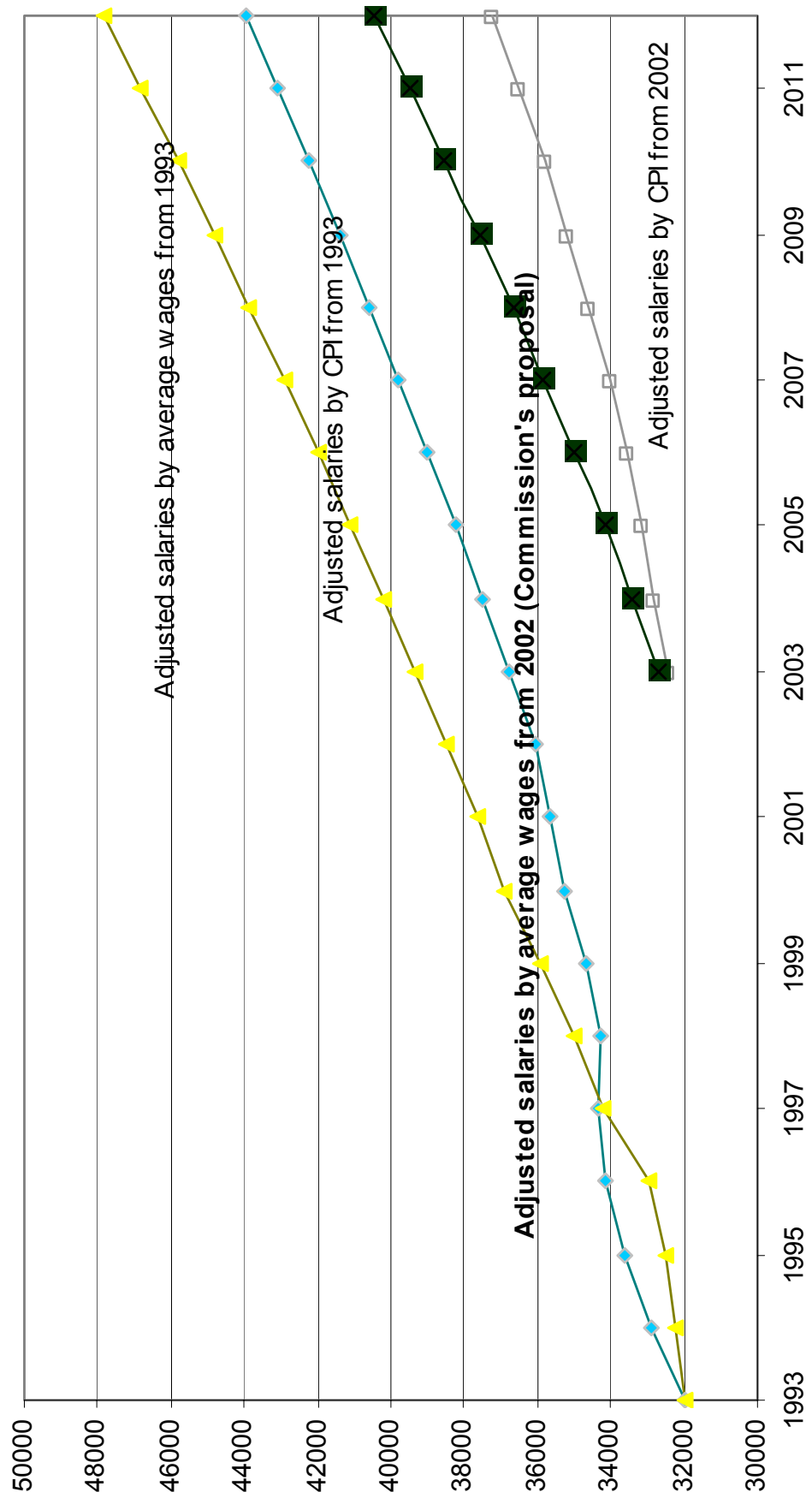
(9) Adjusted legislative salary using average annual growth rate in CPI for every 8 years. [column (7) x column (3) / 100]

(10) Adjusted legislative salary using annual change in wages. [column (7) x column (5) / 100]

(11) Adjusted legislative salary using average annual change in wages for every 7 years. [column (7) x column (6) / 100]

* Shaded area indicates estimation and/or projection.

Figure 1: Options for Legislative Salary Increase



Recommendations of the Commission

Based on its objective analysis, the 2002 Legislative Salary Commission proposes the following recommendations for upward adjustment of the legislative salary levels *starting in 2005*.

Recommendations:

- Increase the current \$32,000 legislative salary level by 6.7 % in 2005 to \$34,200.
- Increase the legislative salary levels every two years thereafter (2007, 2009, 2011) based on the annual average growth rate in annual average wages. The annual average growth rate of average wages is calculated using the last seven years for which current wage data are available from the Department of Labor & Industrial Relations. However, this percentage increase should not exceed 2.5 percent per year or a total of 5.0 percent for any two year period after 2005.
- Increase in 2005, the salary differential for the Senate President and the House Speaker from \$5,000 to \$7,500. This annual \$7,500 difference in salary levels will be in effect and should remain the same at least through 2011 when the next salary commission's recommendations would take effect.
- Recommend that the non-salary components of compensation for the legislators including per diem be reviewed by the agencies/entities, which can effectuate changes to those items as appropriate.

Table 1 summarizes the Commission's recommendations and illustrates an example of the proposed salary changes for 2007, 2009 and 2011, if average wages were increasing hypothetically by 2.2 percent per year between 2002 and 2011. It should be noted that based on the proposed 2.5 percent maximum allowable growth cap in salary levels between 2005 and 2011, the proposed increase in salary level could not exceed \$40,500 in 2011. This represents a maximum allowable increase of 18.4 percent by 2011 over the current level.

Justification:

Since 1993, private and public salary levels have been upgraded while legislative salary levels have been held at \$32,000 per year. If legislative salaries had been periodically increased to correspond with economic changes, the current salary level would exceed the 2002 Commission's recommendation for the 2005 legislature.

For example, between 1993 and 2002, the CPI increased by 12.6 percent (from 160.1 to 180.3). Had the legislative salary kept pace with the CPI, 2002 salary levels would have risen to \$35,250. Using another statistical index, the average annual wages in Hawai'i increased by 17.7 percent from \$26,544 in 1993 to \$31,241 in 2001 (see Table 2).

The Commission's recommendation of a 6.7 percent upward adjustment for 2005 is considerably less than the increases in either of these two statistical indices since 1993 (see Figure 1). The Commission's proposed incremental increase for 2007, 2009 and 2011 are less than or equal to 2.5 percent per year.